

| Rating matrix | |
|------------------|-------------|
| Rating | : Buy |
| Target | : ₹ 1055 |
| Target Period | : 12 months |
| Potential Upside | : 10% |

| What's Changed? | |
|-----------------|-------------------------------|
| Target | Changed from ₹ 830 to ₹ 1055 |
| EPS FY19E | Changed from ₹ 39.5 to ₹ 41.4 |
| EPS FY20E | Changed from ₹ 46.3 to ₹ 50.2 |
| Rating | Changed from Hold to Buy |

| Quarterly Performance | | | | | |
|-----------------------|--------|--------|---------|--------|----------|
| | Q1FY19 | Q1FY18 | YoY (%) | Q4FY18 | QoQ (%) |
| Revenue | 1,640 | 1,290 | 27.1 | 1,464 | 12.0 |
| EBITDA | 231 | 144 | 61.0 | 236 | (1.9) |
| EBITDA (%) | 14.1 | 11.1 | 296 bps | 16.1 | -194 bps |
| PAT | 158 | 122 | 30.0 | 182 | (13.2) |

| Key Financials | | | | |
|----------------|-------|-------|-------|-------|
| ₹ Crore | FY17 | FY18 | FY19E | FY20E |
| Net Sales | 5,236 | 5,463 | 6,910 | 7,962 |
| EBITDA | 705 | 741 | 1,050 | 1,250 |
| Net Profit | 419 | 570 | 696 | 844 |
| EPS (₹) | 24.9 | 34.3 | 41.4 | 50.2 |

| Valuation summary | | | | |
|-------------------|------|------|-------|-------|
| | FY17 | FY18 | FY19E | FY20E |
| P/E | 38.4 | 27.9 | 23.1 | 19.1 |
| Target P/E | 42.4 | 30.8 | 25.5 | 21.0 |
| EV / EBITDA | 19.1 | 21.8 | 20.7 | 14.5 |
| P/BV | 6.7 | 6.2 | 5.8 | 5.0 |
| RoNW (%) | 22.9 | 16.2 | 20.8 | 21.8 |
| RoCE (%) | 29.1 | 21.2 | 24.9 | 27.7 |

| Stock data | |
|---------------------------------|------------|
| Particular | Amount |
| Market Capitalization (₹ Crore) | 16,070.4 |
| Total Debt (₹ Crore) | 300.9 |
| Cash and Investments (₹ Crore) | 1,049.5 |
| EV (₹ Crore) | 15,321.8 |
| 52 week H/L | 1102 / 438 |
| Equity capital | 163.9 |
| Face value | ₹ 10 |

| Price performance (%) | | | | |
|-----------------------|-----|------|-------|-------|
| | 1M | 3M | 6M | 12M |
| TechMahindra | 3.2 | 23.4 | 48.6 | 69.8 |
| MindTree | 0.3 | 48.6 | 104.3 | 104.2 |
| KPIT Tech | 8.8 | 33.5 | 58.5 | 137.1 |
| NIIT Tech | 0.3 | 43.9 | 69.9 | 126.4 |

| Research Analysts | |
|----------------------|-------------------------------------|
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MindTree Ltd (MINLIM)

₹ 957

Off to strong start...

- Revenues in constant currency grew strongly by 8.2% QoQ. US\$ revenues grew 6.8% QoQ to \$241.5 million, above our 3% growth and \$233 million estimate
- Revenues in rupees grew 12% QoQ to ₹ 1,639.5 crore, above our 6.6% QoQ growth and ₹ 1,561 crore estimate
- EBITDA margin declined 200 bps QoQ to 14.1%, below our 150 bps decline, 14.6% estimate.
- Reported PAT of ₹ 158.2 crore was above our expectation of ₹ 145.2 crore estimate on account of better-than-expected other income

Well rounded performance across business segments...

Revenues in constant currency grew strongly by 8.2% QoQ vs. our estimate of 3.5% QoQ. US\$ revenues reported healthy growth of 6.8% QoQ and 20.7% YoY on the back of a well-rounded performance across verticals and strong growth of 16.4% QoQ growth in revenues from top client. As anticipated in Q4FY18, BFSI witnessed growth of 4.9% QoQ albeit at a lower base. Given the strong revenue growth of 6.8% QoQ in reported dollar terms in this quarter, the management said revenue growth in Q2FY19E would be lower than Q1 (of 6.8% QoQ). For FY19E, it reiterated strong growth momentum compared to FY18 on the back of the deal pipeline, company win ratio and improved execution. Consequently, we expect dollar revenues to grow at 17.2% CAGR to \$1162.3 million in FY18-20E.

Margin below expectations, expect slight improvement in Q2FY19E...

The EBITDA margin declined 200 bps sequentially to 14.1% on account of wage hike (-270 bps), visa cost (-20 bps), grant of US\$1.5 million in Stanford University (-60 bps) countered by operational efficiency (+30 bps) and rupee depreciation benefit (+120 bps). Going ahead, the management anticipates margins in Q2FY19E to witness a slight improvement compared to Q1FY19. Although wage hikes are behind in this quarter, the commentary of only a slight improvement in margins is on account of headwinds pertaining to the full cost impact of employees added in Q1FY19 and employee promotions effective from July 1, 2018. However, it reiterated margins in FY19E would be better compared to FY18 mainly driven by revenue growth. Hence, we expect EBITDA margins of 15.2% and 15.7% for FY19E, FY20E, respectively.

Digital inching up @ 47.5% of revenues, growth of 36% YoY...

Total contract value (TCV) improved 2.7% sequentially to \$306 million while digital TCV grew 36.3% QoQ to \$139 million. Digital, now contributing 47.5% to revenues (vs. 42.3% in Q1FY18), grew 12.7% sequentially and 35.5% YoY. The management said the win ratio in deals is strong with deal sizes in the digital space inching up. Going by the reported headline numbers of digital contribution to revenues by Indian IT players, MindTree's proportion is far ahead of its peers and is growing in healthy double digits. This bodes well for MindTree on both aspects of revenue growth and margins.

Earnings to grow at healthy 21.7% CAGR during FY18-20E...

MindTree reported a strong set of numbers on the revenue front in Q1FY19. The outlook remains better on the back of the deal pipeline and digital portfolio. Hence, we now expect our rupee revenue and earnings to grow to grow at 20.7%/21.7% CAGR in FY18-20E. Hence, we have a **BUY** recommendation on the stock with a revised target price of ₹ 1055/share (21x FY20E EPS).

Variance analysis

| | Q1FY19 | Q1FY19E | Q1FY18 | YoY (%) | Q4FY18 | QoQ (%) | Comments |
|-------------------|---------|---------|---------|---------|---------|----------|---|
| Revenue | 1,639.5 | 1,561.1 | 1,289.5 | 27.1 | 1,464.0 | 12.0 | US\$ revenue grew 6.8% QoQ, above our estimate of 3% growth |
| Employee expenses | 1,039.5 | 1,014.7 | 839.3 | 23.9 | 930.1 | 11.8 | |
| Gross Margin | 600.0 | 546.4 | 450.2 | 33.3 | 533.9 | 12.4 | |
| Gross margin (%) | 36.6 | 35.0 | 34.9 | 168 bps | 36.5 | 13 bps | |
| SG&A expenses | 369.0 | 318.5 | 306.7 | 20.3 | 298.4 | 23.7 | |
| EBITDA | 231.0 | 227.9 | 143.5 | 61.0 | 235.5 | -1.9 | |
| EBITDA Margin (%) | 14.1 | 14.6 | 11.1 | 296 bps | 16.1 | -194 bps | EBITDA margin came in below our expectations mainly on account of wage hike |
| Depreciation | 40.0 | 40.6 | 45.9 | -12.9 | 38.3 | 4.4 | |
| EBIT | 191.0 | 187.3 | 97.6 | 95.7 | 197.2 | -3.1 | |
| EBIT Margin (%) | 11.6 | 12.0 | 7.6 | 408 bps | 13.5 | -182 bps | |
| Other income | 27.9 | 17.4 | 65.4 | -57.3 | 59.1 | -52.8 | |
| PBT | 218.9 | 204.7 | 163.0 | 34.3 | 256.3 | -14.6 | |
| Tax paid | 64.7 | 53.7 | 38.5 | 68.1 | 55.7 | 16.2 | |
| PAT | 158.2 | 145.2 | 121.7 | 30.0 | 182.2 | -13.2 | Reported PAT was above our estimate on account of better-than-expected other income |

Key Metrics

| | | | | | | |
|----------------------------|--------|--------|--------|----------|--------|---------|
| Closing employees | 18,990 | 18,000 | 16,561 | 14.7 | 17,723 | 7.1 |
| Attrition (%) | 12.2 | 13.0 | 14.0 | -180 bps | 12.5 | -30 bps |
| Utilisation ex-trainees(%) | 76.3 | 75.5 | 73.8 | 250 bps | 75.2 | 110 bps |
| Average \$/₹ | 67.9 | 67.0 | 64.4 | 5.4 | 64.7 | 4.9 |

Source: Company, ICICI Direct Research

Change in estimates

| (₹ Crore) | FY19E | | | FY20E | | | Comments |
|-------------------|---------|---------|----------|---------|---------|----------|--|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 6,350.8 | 6,910.1 | 8.8 | 7,198.6 | 7,961.9 | 10.6 | |
| EBITDA | 997.1 | 1,050.3 | 5.3 | 1,151.8 | 1,250.0 | 8.5 | |
| EBITDA Margin (%) | 15.7 | 15.2 | -50 bps | 16.0 | 15.7 | -30 bps | Tweaked margin estimates for FY19 and FY20E owing to outlook ahead |
| PAT | 647.2 | 696.4 | 7.6 | 758.3 | 844.1 | 11.3 | |
| EPS (₹) | 39.5 | 41.4 | 4.9 | 46.3 | 50.2 | 8.4 | |

Source: Company, ICICI Direct Research

Assumptions

| | Current | Current | Earlier | Current | Earlier |
|----------------------------|---------|---------|---------|---------|---------|
| | FY17 | FY18E | FY19E | FY20E | FY20E |
| Closing employees | 16,470 | 17,723 | 20,223 | 18,813 | 20,813 |
| Attrition (%) | 15.0 | 13.4 | 13.0 | 13.0 | 13.0 |
| Utilisation ex-trainees(%) | 72.5 | 74.5 | 73.0 | 75.0 | 76.0 |
| Average \$/₹ | 67.5 | 64.5 | 68.3 | 65.0 | 65.0 |

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Revenue growth momentum to continue in FY19E:** Given the strong revenue growth of 6.8% QoQ in reported dollar terms in this quarter, the management said revenue growth in Q2FY19E would be lower than Q1 (of 6.8% QoQ). For FY19E, it reiterated the strong growth momentum compared to FY18 on the back of the deal pipeline, company win ratio and improved execution
- **Reiterated better margins in FY19E compared to FY18:** The management said margins in Q2FY19E may witness a slight improvement compared to Q1FY19. Although wage hikes are behind in this quarter, the commentary of only a slight improvement in margins is on account of headwinds pertaining to full cost impact of employees added in Q1FY19 and employee promotions effective from July 1, 2018. However, it reiterated that margins in FY19E would be better compared to FY18 mainly driven by revenue growth
- **New CFO soon:** Current CFO Jagannathan Chakravarthi has resigned from the company to pursue career opportunities outside MindTree. The company has accepted the resignation of Mr Jagannathan as CFO of the company with effect from July 20, 2018. The management expects to find the successor to Mr Jagannathan in the next three months
- **Collaboration with Stanford University:** The management said enterprises are looking beyond digital towards artificial intelligence (AI), cognitive technologies and quantum computing. In line with this, the company has entered into collaboration with Stanford University with commitment of US\$2 million in it. Of this, US\$1.5 million has been spent in this quarter. This endowment would create a Mindtree faculty scholar position focused on AI at Stanford University. Additional details would emerge in coming days subject to approvals. The company would continue to look for further collaborations with other top universities
- **Clientele details:** Top customer contribution to overall revenues is on increasing mode since Q3FY17 and was at 19.4% in the quarter. It witnessed healthy double digit growth of 16.4% QoQ for a second consecutive quarter (13.2% QoQ in Q4FY18). The management reiterated that concerns in top clients bucket are bottoming out and expect stability in the said client buckets. The active client base is now at 339 with one client added in the quarter. Client transitions were steady sequentially with two clients added in \$10 million+ bucket and one in the \$5 million bucket
- **Employee update:** The employee count was at 18,990 with net addition of 1,267 employees. Net addition of 1,267 employees in this quarter is higher than the net addition of 1,253 employees in FY18. Attrition and utilisation matrix both played out in favour of the company. Attrition (LTM) continued its declining trajectory for consecutive quarters since Q1FY17 and declined 30 bps QoQ to 12.2%. This is the lowest attrition rate since Q3FY14 wherein it was at 11.6%. Utilisation (ex-trainees) increased 110 bps QoQ to 76.3%. This was the highest ever utilisation achieved since Q2FY12 wherein it clocked 77.7%

Company Analysis

Exhibit 1: Geography-wise break-up

| | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Revenue by geography (%) | | | | | | |
| US | 69.8 | 69.6 | 67.5 | 69.7 | 71.0 | 72.7 |
| Europe | 20.8 | 21.1 | 22.8 | 20.9 | 21.1 | 20.1 |
| India | 2.8 | 3.0 | 3.5 | 3.2 | 3.2 | 3.1 |
| RoW | 6.6 | 6.3 | 6.3 | 6.2 | 4.7 | 4.2 |
| Growth QoQ (%) | | | | | | |
| US | 3.4 | 2.0 | -0.1 | 7.3 | 7.5 | 9.3 |
| Europe | 1.8 | 3.8 | 11.4 | -4.7 | 6.6 | 1.7 |
| India | -8.1 | 9.6 | 20.2 | -5.0 | 5.6 | 3.4 |
| RoW | -9.2 | -2.3 | 3.0 | 2.3 | -20.0 | -4.6 |

Source: Company, ICICI Direct Research

US and India led the growth for the quarter. Europe grew 7.3% QoQ in cc terms

Exhibit 2: Vertical-wise break-up

| | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Revenue by verticals (%) | | | | | | |
| Technology, Media & services | 37.5 | 37.9 | 37.8 | 36.6 | 38.0 | 38.9 |
| BFSI | 24.7 | 25.1 | 24.8 | 24.8 | 22.7 | 22.3 |
| Retail, CPG & Mfg | 23.0 | 22.7 | 22.9 | 23.3 | 23.5 | 23.1 |
| Travel & Hospitality | 14.9 | 14.3 | 14.5 | 15.3 | 15.9 | 15.8 |
| Growth QoQ (%) | | | | | | |
| Technology, Media & services | 4.0 | 3.4 | 2.8 | 0.6 | 9.6 | 9.3 |
| BFSI | 4.3 | 4.0 | 1.8 | 3.9 | -3.4 | 4.9 |
| Retail, CPG & Mfg | -2.9 | 1.0 | 4.0 | 5.7 | 6.5 | 4.9 |
| Travel & Hospitality | 0.4 | -1.8 | 4.5 | 9.7 | 9.7 | 6.1 |

Source: Company, ICICI Direct Research

Well rounded performance across verticals

Exhibit 3: Service offerings break-up

| | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|--|--------|--------|--------|--------|--------|--------|
| Revenue by service offerings (%) | | | | | | |
| Application, Development & Maintenance | 51.2 | 51.2 | 50.0 | 50.2 | 50.3 | 50.7 |
| Consulting | 4.0 | 3.4 | 4.0 | 4.0 | 3.9 | 3.4 |
| Pacakge implementation | 12.6 | 11.5 | 11.2 | 11.3 | 11.2 | 10.6 |
| IP led revenue | 1.3 | 1.1 | 1.0 | 0.9 | 0.9 | 0.6 |
| Independent testing | 12.5 | 11.8 | 12.1 | 12.6 | 12.7 | 13.1 |
| Infrastructure management & Tech Support | 20.4 | 21.0 | 21.8 | 21.1 | 21.0 | 21.6 |
| Digital | 39.6 | 42.3 | 42.6 | 43.9 | 45.0 | 47.5 |
| Growth QoQ (%) | | | | | | |
| Application, Development & Maintenance | 0.0 | 0.0 | 0.6 | 4.3 | 5.8 | 7.6 |
| Consulting | 4.4 | -13.0 | 21.2 | 3.9 | 2.9 | -6.9 |
| Pacakge implementation | 3.4 | -6.6 | 0.4 | 4.9 | 4.6 | 1.0 |
| IP led revenue | -5.5 | -13.4 | -6.3 | -6.5 | 5.6 | -28.8 |
| Independent testing | 1.0 | -3.4 | 5.7 | 8.2 | 6.4 | 10.1 |
| Infrastructure management & Tech Support | 2.3 | 5.3 | 7.0 | 0.6 | 5.1 | 9.8 |
| Digital | 2.3 | 9.3 | 3.8 | 7.1 | 8.2 | 12.7 |

Source: Company, ICICI Direct Research

Growth was led by application development and independent testing.

Exhibit 4: Client & human resource matrix

| | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 |
|--|--------|--------|--------|--------|--------|--------|
| <i>Client metrics</i> | | | | | | |
| \$1 mn Clients | 111 | 113 | 114 | 114 | 118 | 117 |
| \$10 mn Clients | 16 | 16 | 16 | 15 | 17 | 19 |
| \$25 mn Clients | 4 | 3 | 3 | 3 | 4 | 4 |
| \$50 mn Clients | 1 | 1 | 1 | 1 | 1 | 1 |
| \$100 mn Clients | 1 | 1 | 1 | 1 | 1 | 1 |
| <i>Headcount, Utilization & Attrition</i> | | | | | | |
| Total Employees | 16470 | 16561 | 16910 | 17200 | 17723 | 18990 |
| Utilization (Excluding trainees) | 72.7 | 73.8 | 74.6 | 74.3 | 75.2 | 76.3 |
| LTM Attrition | 15.1 | 14.0 | 13.0 | 12.6 | 12.5 | 12.2 |

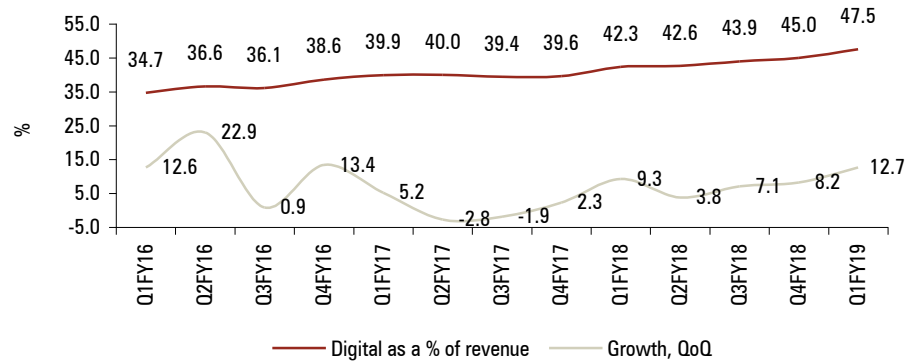
Source: Company, ICICI Direct Research

Attrition and utilization matrix both played out in favour of the company

Financial story in charts

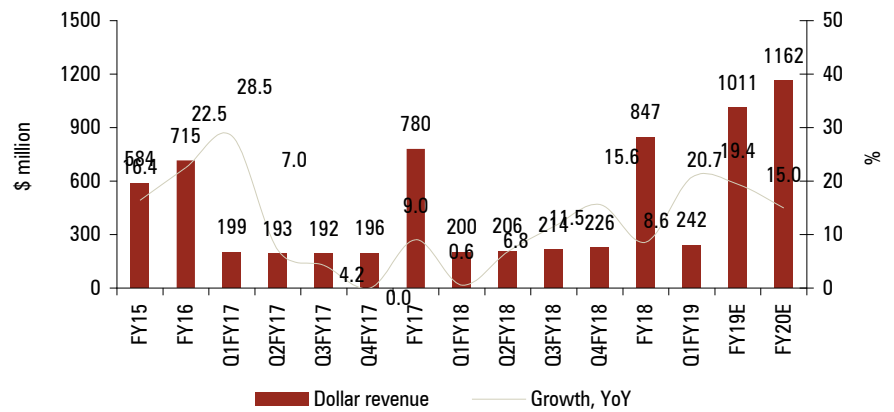
Exhibit 5: Digital contribution to revenues way above peers

Digital now contributing 47.5% to total revenues grew 12.7% sequentially and 35.5% YoY



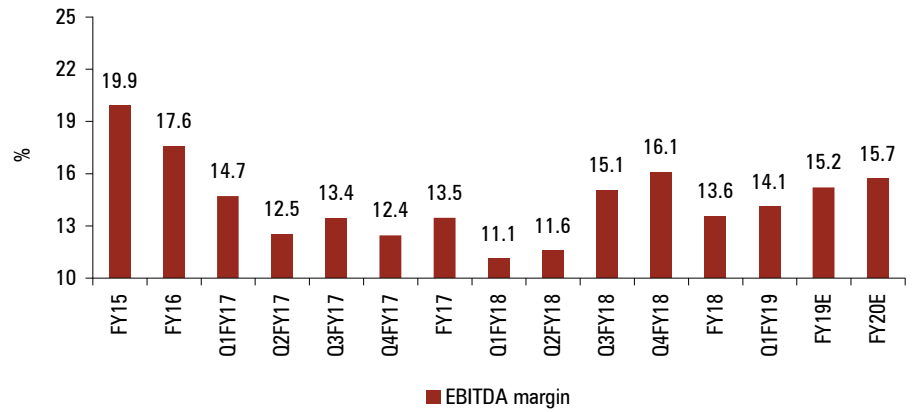
Source: Company, ICICI Direct Research

Exhibit 6: Dollar revenues may grow at 17.2% CAGR during FY18-20E



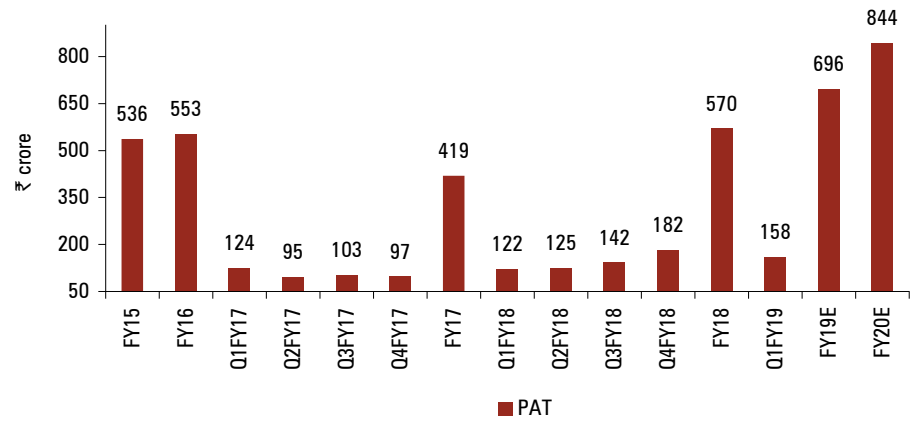
Source: Company, ICICI Direct Research

Exhibit 7: Margin declined 200 QoQ to 14.1%



Source: Company, ICICI Direct Research

Exhibit 8: PAT may grow at 21.7% CAGR during FY18-20E



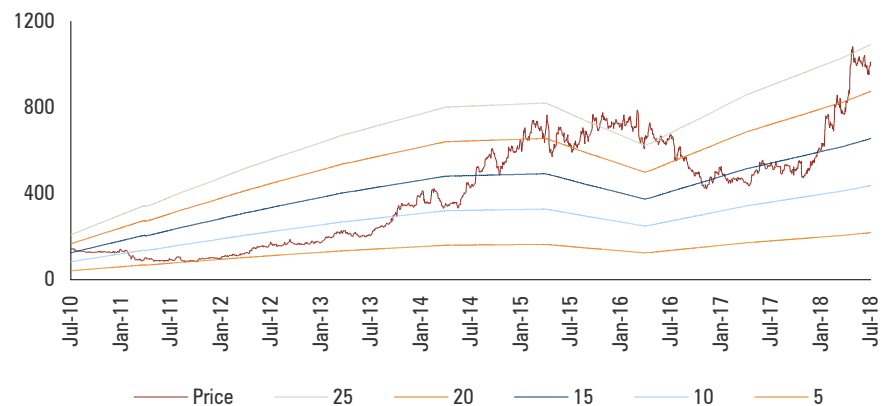
Source: Company, ICICI Direct Research

Outlook and Valuation

MindTree reported a strong set of numbers on the revenue front in Q1FY19. Revenues in constant currency grew strongly by 8.2% QoQ vs. our estimate of 3.5% QoQ while EBITDA margin came in below our estimate owing to higher-than-expected employee expenses. Geography-wise, US and India led the growth with 9.3% and 3.4% QoQ, respectively. The performance was well rounded across verticals with hi-tech & media, travel & hospitality, retail and BFSI growing 9.3%, 6.1%, 4.9% and 4.9% QoQ, respectively. Total contract value improved 2.7% sequentially to \$306 million while digital TCV grew 36.3% QoQ to \$139 million. Digital, now contributing 47.5% to total revenues, grew 12.7% sequentially and 35.5% YoY.

MindTree reported a strong set of numbers on the revenue front in Q1FY19. The outlook remains better on the back of the deal pipeline and digital portfolio. Hence, we now expect our rupee revenue and earnings to grow to grow at 20.7%/21.7% CAGR in FY18-20E. Hence, we have a BUY recommendation on the stock with a revised target price of ₹ 1055/share (21x FY20E EPS).

Exhibit 9: One year forward rolling PE



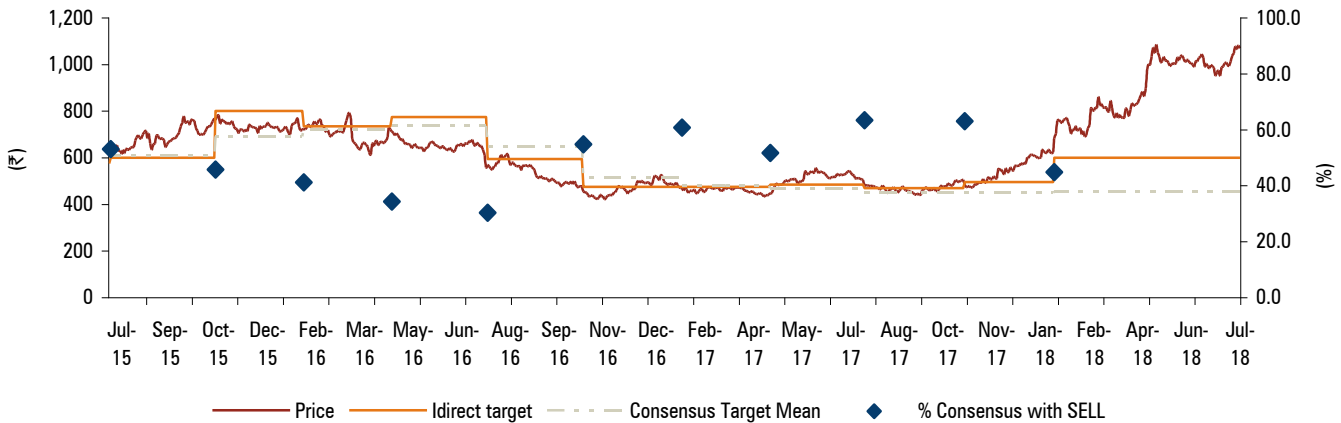
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

| | Sales (₹ cr) | Growth (%) | EPS (₹) | Growth (%) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| FY16 | 4,673 | 31.2 | 32.9 | 2.9 | 29.1 | 21.4 | 26.6 | 33.7 |
| FY17 | 5,236 | 12.1 | 24.9 | (24.2) | 38.4 | 19.1 | 22.9 | 29.1 |
| FY18 | 5,463 | 4.3 | 34.3 | 37.6 | 27.9 | 21.8 | 16.2 | 21.2 |
| FY19E | 6,910 | 26.5 | 41.4 | 20.8 | 23.1 | 20.7 | 20.8 | 24.9 |
| FY20E | 7,962 | 15.2 | 50.2 | 21.2 | 19.1 | 14.5 | 21.8 | 27.7 |

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

| Date | Event |
|--------|--|
| Apr-15 | Reports soft Q4FY15 earnings led by client specific issues and cross currency headwinds. However, management is confident of achieving better-than-industry average growth during FY16E |
| Jul-15 | Acquires UK-based Bluefin solutions for £42.3 million (£29 million revenues) and US-based Relational Solutions for \$10 million (\$3.2 million revenues) |
| Jul-15 | Reports strong Q1FY16 earnings. Dollar revenues grow 4.8% QoQ to \$154.9 million, in line with estimates, led by traction in top accounts and the BFSI vertical |
| Oct-15 | Reports strong quarterly performance in Q2FY16 with both revenue and margin beat. US\$ revenues grew 16.4% QoQ while organic revenues grew 8.1% QoQ |
| Sep-16 | Expects Q2FY17 revenues to decline led by currency fluctuations, project cancellations, slower ramp up in few large clients across segments and continued weakness in its U.K. based subsidiary Bluefin. |
| Sep-16 | Announces availability of the next generation of managed services platform, ATLAS |
| Sep-16 | Announces availability of next generation of managed services platform, ATLAS which will help analyse complex application portfolios, design transition plans, implement solution models and will provide real-time access to view issues and check progress |
| Nov-16 | Sets up new sales-force centre of excellence in Munich, Germany to penetrate more in European market. Facility is anchored by Magnet 360, a sales-force platinum partner and a wholly owned subsidiary of MindTree |
| Mar-17 | Declares third interim dividend of ₹ 2 per equity share. Record date for the same will be April 10, 2017 |
| Jun-17 | Approves the proposal for buyback of 43.2 lakh shares (~2.57% of its paid-up equity share capital) at ₹ 625 per share aggregating to ₹ 270 crore, through the tender offer route |

Source: Company, ICICI Direct Research

Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|-------------------------------------|--------------------|-------|--------------|------------|
| 1 | Coffee Day Group | 30-Jun-18 | 17.1% | 28.1 | 0.0 |
| 2 | Nalanda Capital Pte Ltd | 30-Jun-18 | 10.6% | 17.4 | 0.0 |
| 3 | Natarajan (Krishnakumar) | 30-Jun-18 | 3.7% | 6.1 | 0.0 |
| 4 | Amansa Capital Pte Ltd. | 30-Jun-18 | 3.3% | 5.5 | -1.3 |
| 5 | Siddhartha (V G) | 30-Jun-18 | 3.3% | 5.5 | 0.0 |
| 6 | Bagchi (Subroto) | 30-Jun-18 | 3.1% | 5.1 | 0.0 |
| 7 | UTI Asset Management Co. Ltd. | 30-Jun-18 | 2.7% | 4.4 | 0.0 |
| 8 | Arohi Asset Management Pte. Ltd. | 30-Jun-18 | 2.6% | 4.2 | -0.3 |
| 9 | The Vanguard Group, Inc. | 30-Jun-18 | 2.5% | 4.1 | 0.0 |
| 10 | Life Insurance Corporation of India | 31-Mar-18 | 2.1% | 3.4 | 0.7 |

Source: Reuters, ICICI Direct Research

Shareholding Pattern

| (in %) | Dec-17 | Mar-18 | Jun-18 |
|----------|--------|--------|--------|
| Promoter | 13.64 | 13.37 | 13.35 |
| FII | 86.36 | 86.63 | 86.65 |
| DII | 0.00 | 0.00 | 0.00 |
| Others | 100.00 | 100.00 | 100.00 |

Recent Activity

| Buys | | | Sells | | |
|--|--------|--------|---|---------|--------|
| Investor name | Value | Shares | Investor name | Value | Shares |
| Goldman Sachs Asset Management International | 20.95m | 1.45m | Amansa Capital Pte Ltd. | -18.13m | -1.26m |
| Life Insurance Corporation of India | 8.87m | 0.75m | Arohi Asset Management Pte. Ltd. | -4.59m | -0.32m |
| Kotak Mahindra Asset Management Company Ltd. | 4.41m | 0.30m | Ozair (Kamran) | -1.80m | -0.15m |
| Robeco Institutional Asset Management B.V. | 3.76m | 0.25m | Pine River Capital Management, L.P. | -1.72m | -0.14m |
| L&T Investment Management Limited | 2.75m | 0.23m | Franklin Templeton Asset Management (India) Pvt. Ltd. | -1.72m | -0.12m |

Source: Reuters, ICICI Direct Research

Financial summary

| Profit and loss statement | | ₹ Crore | | | |
|------------------------------------|--------|---------|-------|-------|--|
| | FY17 | FY18 | FY19E | FY20E | |
| Total Revenues | 5,236 | 5,463 | 6,910 | 7,962 | |
| Growth (%) | 12.1 | 4.3 | 26.5 | 15.2 | |
| COGS | 3,413 | 3,564 | 4,478 | 5,120 | |
| Other Expenses | 1,119 | 1,158 | 1,382 | 1,592 | |
| EBITDA | 705 | 741 | 1,050 | 1,250 | |
| Growth (%) | (14.2) | 5.1 | 41.8 | 19.0 | |
| Depreciation | 186 | 172 | 180 | 189 | |
| Other Income | 55 | 190 | 101 | 130 | |
| Interest paid | 19 | 17 | 18 | 19 | |
| PBT before Exceptional Items | 555 | 742 | 954 | 1,172 | |
| PBT | 555 | 742 | 954 | 1,172 | |
| Growth (%) | (23.2) | 33.8 | 28.5 | 22.9 | |
| Total Tax | 136 | 172 | 258 | 328 | |
| PAT before MI | 419 | 570 | 696 | 844 | |
| Minority Int & Pft. from associate | - | - | - | - | |
| PAT | 419 | 570 | 696 | 844 | |
| EPS - diluted | 24.9 | 34.3 | 41.4 | 50.2 | |
| EPS (Growth %) | (24.2) | 37.6 | 20.8 | 21.2 | |

Source: Company, ICICI Direct Research

| Balance sheet | | ₹ Crore | | | |
|----------------------------------|-------|---------|-------|-------|--|
| | FY17 | FY18 | FY19E | FY20E | |
| Equity | 168 | 164 | 164 | 164 | |
| Reserves & Surplus | 2,409 | 2,578 | 3,037 | 3,644 | |
| Networth | 2,577 | 2,741 | 3,201 | 3,808 | |
| Minority Interest | - | - | - | - | |
| Total Debt | 99 | 301 | 301 | 301 | |
| Other long term liabilities | 30 | 9 | 9 | 9 | |
| Source of funds | 2,706 | 3,051 | 3,510 | 4,117 | |
| Net Block | 381 | 351 | 286 | 229 | |
| CWIP | 19 | 9 | 9 | 9 | |
| Other intangible assets&Goodwill | 641 | 606 | 606 | 606 | |
| Other long term assets | 288 | 267 | 267 | 267 | |
| Current investments | 587 | 721 | 721 | 721 | |
| Debtors | 896 | 1,016 | 1,403 | 1,384 | |
| Cash & Cash equivalents | 251 | 329 | 467 | 1,289 | |
| Loans and advances | 1 | 2 | 2 | 2 | |
| Other Current Assets(OCA) | 326 | 436 | 445 | 465 | |
| Trade payables | 165 | 171 | 216 | 248 | |
| Other Current liabilities | 408 | 393 | 334 | 439 | |
| Provisions | 111 | 122 | 146 | 168 | |
| Application of funds | 2,706 | 3,051 | 3,510 | 4,117 | |

Source: Company, ICICI Direct Research

| Cash flow statement | | ₹ Crore | | | |
|----------------------------------|-------|---------|-------|-------|--|
| | FY17 | FY18 | FY19E | FY20E | |
| Net profit before Tax | 555 | 742 | 954 | 1,172 | |
| Depreciation | 186 | 172 | 180 | 189 | |
| (inc)/dec in Current Assets | 146 | (214) | (396) | (2) | |
| (inc)/dec in current Liabilities | (24) | 130 | 10 | 160 | |
| CF from operations | 654 | 564 | 407 | 1,080 | |
| Other Investments | (369) | (99) | 101 | 130 | |
| (Purchase)/Sale of Fixed Assets | (85) | (101) | (115) | (132) | |
| CF from investing Activities | (453) | (200) | (13) | (2) | |
| Inc / (Dec) in Equity Capital | 1 | 0 | - | - | |
| Inc / (Dec) in sec.loan Funds | 55 | 196 | - | - | |
| Dividend & Dividend tax | (193) | (214) | (237) | (237) | |
| Interest Paid on Loans | (0) | (5) | (18) | (19) | |
| CF from Financial Activities | (138) | (288) | (255) | (256) | |
| Cash generating during the year | 57 | 77 | 138 | 822 | |
| Opening cash balance | 194 | 251 | 329 | 467 | |
| Exchange rate differences | (6) | (0) | - | - | |
| Closing cash | 251 | 328 | 467 | 1,289 | |

Source: Company, ICICI Direct Research

| Key ratios | | (Year-end March) | | | |
|------------------------|-------|------------------|-------|-------|--|
| | FY17 | FY18 | FY19E | FY20E | |
| Per share data (₹) | | | | | |
| Adjusted EPS (Diluted) | 24.9 | 34.3 | 41.4 | 50.2 | |
| BV per share | 153.3 | 164.8 | 190.4 | 226.5 | |
| DPS | 10.0 | 13.0 | 12.0 | 12.0 | |
| Cash per Share | 14.9 | 19.8 | 27.8 | 76.7 | |
| Operating Ratios | | | | | |
| EBITDA Margin (%) | 13.5 | 13.6 | 15.2 | 15.7 | |
| PBT Margin (%) | 10.6 | 13.6 | 13.8 | 14.7 | |
| PAT Margin (%) | 8.0 | 10.4 | 10.1 | 10.6 | |
| Debtor days | 62 | 68 | 74 | 63 | |
| Creditor days | 12 | 11 | 11 | 11 | |
| Return Ratios (%) | | | | | |
| RoE | 16.2 | 20.8 | 21.8 | 22.2 | |
| RoCE | 21.2 | 24.9 | 27.7 | 28.9 | |
| RoIC | 28.0 | 28.6 | 37.6 | 50.6 | |
| Valuation Ratios (x) | | | | | |
| P/E | 38.4 | 27.9 | 23.1 | 19.1 | |
| EV / EBITDA | 21.8 | 20.7 | 14.5 | 11.5 | |
| Price to Book Value | 6.2 | 5.8 | 5.0 | 4.2 | |
| EV / Net Sales | 2.9 | 2.8 | 2.2 | 1.8 | |
| Market Cap / Sales | 3.1 | 2.9 | 2.3 | 2.0 | |
| Solvency Ratios | | | | | |
| Debt/EBITDA | 0.1 | 0.4 | 0.3 | 0.2 | |
| Debt / Equity | 0.0 | 0.1 | 0.1 | 0.1 | |
| Current Ratio | 1.8 | 2.1 | 2.7 | 2.2 | |
| Quick Ratio | 1.8 | 2.1 | 2.7 | 2.2 | |

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (IT)

| Sector / Company | CMP | | | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE(%) | | |
|----------------------------|-------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|--------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY18P | FY19E | FY20E | FY18P | FY19E | FY20E | FY18P | FY19E | FY20E | FY18P | FY19E | FY20E | FY18P | FY19E | FY20E |
| Cyient (INFENT) | 693 | 760 | Hold | 7,881 | 36.0 | 39.3 | 47.6 | 19.4 | 17.8 | 14.7 | 12.8 | 9.8 | 9.0 | 21.4 | 20.2 | 21.5 | 17.3 | 17.0 | 18.1 |
| Eclerx (ECLSER) | 1,259 | 1,180 | Hold | 5,190 | 72.9 | 72.2 | 84.4 | 17.3 | 17.4 | 14.9 | 11.8 | 11.5 | 9.5 | 23.2 | 22.1 | 23.9 | 19.3 | 17.0 | 18.4 |
| Firstsource (FIRSOU) | 73 | 87 | Buy | 5,087 | 4.8 | 5.1 | 6.2 | 15.2 | 14.2 | 11.7 | 12.0 | 10.3 | 8.5 | 12.7 | 14.7 | 16.0 | 13.9 | 13.6 | 15.1 |
| HCL Tech (HCLTEC) | 981 | 1,000 | Hold | 138,488 | 62.6 | 64.9 | 71.5 | 15.7 | 15.1 | 13.7 | 11.5 | 9.8 | 8.4 | 27.3 | 26.7 | 26.4 | 23.8 | 21.7 | 21.2 |
| Infosys (INFTEC) | 1,321 | 1,410 | Hold | 309,689 | 64.7 | 71.2 | 78.4 | 21.0 | 19.0 | 17.3 | 14.9 | 13.3 | 12.0 | 30.9 | 30.4 | 30.9 | 22.5 | 21.8 | 22.1 |
| KPIT Tech (KPISYS) | 294 | 275 | Hold | 5,850 | 12.9 | 16.0 | 18.3 | 22.8 | 18.4 | 16.1 | 15.0 | 11.8 | 10.1 | 15.9 | 18.3 | 18.9 | 14.2 | 15.6 | 15.4 |
| MindTree (MINCON) | 957 | 1,055 | Buy | 16,070 | 34.3 | 41.4 | 50.2 | 27.9 | 23.1 | 19.1 | 20.7 | 14.5 | 11.5 | 24.9 | 27.7 | 28.9 | 20.8 | 21.8 | 22.2 |
| NIIT Technologies (NIITEC) | 1,098 | 1,075 | Hold | 3,934 | 45.6 | 54.1 | 62.6 | 24.1 | 20.3 | 17.5 | 6.0 | 4.8 | 3.7 | 18.4 | 19.4 | 19.5 | 15.1 | 15.7 | 15.9 |
| Persistent (PSYS) | 825 | 825 | Buy | 6,598 | 40.5 | 43.7 | 50.9 | 20.4 | 18.9 | 16.2 | 12.6 | 10.9 | 9.0 | 19.9 | 19.1 | 19.9 | 15.2 | 14.7 | 15.3 |
| TCS (TCS) | 1,986 | 2,060 | Hold | 724,485 | 67.4 | 80.6 | 89.4 | 14.3 | 23.9 | 21.5 | 21.0 | 17.3 | 15.2 | 37.6 | 43.9 | 39.8 | 29.6 | 34.2 | 30.9 |
| Tech Mahindra (TECMAH) | 646 | 735 | Hold | 63,483 | 42.7 | 42.2 | 49.0 | 15.1 | 15.3 | 13.2 | 12.0 | 9.5 | 7.6 | 21.9 | 20.0 | 20.1 | 20.0 | 17.3 | 17.0 |
| Wipro (WIPRO) | 285 | 315 | Buy | 140,705 | 16.9 | 17.5 | 20.9 | 16.9 | 16.3 | 13.7 | 11.9 | 11.4 | 9.4 | 16.9 | 15.0 | 15.9 | 16.6 | 14.3 | 15.0 |

Source: Company, ICICI Direct Research

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